

CITY OF HAYWARD

AGENDA REPORT

AGENDA DATE 02/03/04
AGENDA ITEM _____
WORK SESSION ITEM WS #2

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Review of Lifeline and Economy Sewer Rates and Water Service Rates and Fees

RECOMMENDATION:

It is recommended that City Council review and comment on this report.

DISCUSSION:

This report is in response to Council's request for information on the City Lifeline and Economy sewer rates. It also includes information about water rates to provide a more complete picture of the current utilities rate structure and opportunities for adjustments.

Sewer Rates

The City prepares a Sewer Revenue Program annually in accordance with State Water Resources Control Board guidelines. The Sewer Revenue Program has two main objectives: 1) To demonstrate that the costs of providing wastewater collection and treatment services are equitably borne by customers in proportion to their usage and that one customer class does not subsidize another's use of the facilities; and 2) to show that revenue generated is sufficient to cover the cost of providing wastewater service. The City must demonstrate that both of these objectives are met in accordance with the terms of construction grant funding received in the 1980s.

The existing sewer service charge for normal single-family residential service is \$16.49 per month, payable bimonthly at \$32.98. This rate is based on average wastewater discharge of 200 gallons per day (gpd) or about 16 units (1 unit = 100 cu. ft.) of wastewater in a billing period. While a large majority of single-family customers pay this standard rate, the City has also implemented lower rates for lower usage to recognize customers who discharge less wastewater and thus reduce impact on the wastewater collection and treatment facilities. It is through this tiered rate structure that the City satisfies the requirement of service charges being proportional to use.

In 1978, the City Council adopted a sewer rate to be applied to any residential account using five units of water (approximately 60 gpd) or less in a two-month billing period. Known as the Lifeline sewer rate, it was intended to reduce the bi-monthly sewer service charge for customers who use less water, and therefore discharge less wastewater, than other customers. The current Lifeline rate is \$5.07 per month, or \$10.14 per billing period, which is over two-thirds less than the standard rate.

In 1990, an Economy sewer charge was added to the sewer service rate schedule to enable additional customers to enjoy a reduced sewer service charge and to further encourage water conservation. Customers who use six to ten units of water (up to an average of about 125 gpd) in a two-month billing period are currently charged \$10.14 per month for sewer service, or \$20.28 per billing period, which is well over one-third less than the standard rate. As with the Lifeline rate, residential customers who do not have the water demands normally associated with single-family residences or who reduce water consumption benefit from the lower rate.

Approximately 700 customers qualified for the Lifeline rate last year, while about 1,200 customers qualified for the Economy rate. Hayward has a total of about 42,000 residential users, including residents of multi-family units. Most Lifeline and Economy rates are applied to wintertime billing, when water use tends to be lower. As the City does not maintain demographic information on qualified Lifeline and Economy ratepayers, we are unable to note with certainty the characteristics of the beneficiaries of the lower rates. Anecdotally, lower utility rates typically benefit senior citizens and others in small family units. Although the terms "Lifeline" and "Economy" may connote customer income, they are, in fact, unrelated to income.

Sewer Rate Thresholds

There are a few points to keep in mind when considering changes to the thresholds for the reduced rates. First, both the Lifeline and Economy rate must remain based on actual cost of providing service, as is required in the State guidelines. In other words, if the unit threshold for applying the Lifeline or Economy rate is changed, the actual rate charged must also change. That is, a lower usage threshold would result in lower charges and higher threshold in higher charges. It would not be consistent with the State guidelines to increase the thresholds and leave the rates as they are. Second, the Sewer Revenue Program is driven in large part by revenue requirements that must be allocated among users. Therefore, if thresholds are adjusted to allow a greater number of customers to qualify for reduced rates, then rates for other customer classes must be adjusted to compensate for the reduction in revenue.

In order to provide the City Council with a sense of how a relatively minor adjustment to the thresholds would impact customers and rates, staff prepared an analysis of sewer rates using 6 units (about 75 gpd) as maximum usage for the Lifeline rate and 12 units (about 150 gpd) for the Economy rate. All other data for 2003-04 (budget figures, number of customers,

wastewater characteristics, etc.) remained unchanged. Following are the major findings of this analysis:

- About 1,200 customers would qualify for the Lifeline rate annually (vs. 700 currently)
- About 2,300 customers would qualify for the Economy rate annually (vs. 1,200 currently)
- The Lifeline rate would be about \$6.22 monthly (vs. \$5.07)
- The Economy rate would be about \$12.44 monthly (vs. \$10.14)
- The standard residential living unit cost would also have to increase to about \$16.59 monthly (vs. \$16.49); the multi-family unit cost would increase to about \$14.75 (vs. \$14.67); and the mobile home rate would increase to about \$11.61 (vs. \$11.54) in order to generate the revenue lost to the expansion of the low usage customer base

While approximately 1,600 additional residential customers may qualify for reduced rates if rate thresholds are adjusted as described, existing Lifeline and most Economy customers would see an approximately 23 percent increase in their monthly sewer service charge, without necessarily increasing their water consumption. Likewise, other residential customers would be impacted by higher rates, albeit much smaller than Lifeline and Economy users, in order for the change to remain revenue neutral.

Attachment A shows the approximate percent allocation of residential sewer billings among Lifeline, Economy, and all other ratepayers (multi-family, mobile home, and standard customers) currently and under the hypothetical threshold adjustment. This graph shows the modest increases in the percentage of customers that would qualify for the reduced rates. Attachment B illustrates the impact of such an adjustment on the existing sewer rates. The biggest increase would occur in the Lifeline and Economy rates, while the other three residential customer classes would see smaller rate increases.

Again, Lifeline and Economy sewer rates are tied specifically to water consumption, not income levels, making it possible for more customers to participate. Considering the relatively small number of customers that would benefit from increasing the Lifeline and Economy sewer rate thresholds and the rate impacts on all customers that would result from such an adjustment, staff recommends retaining the current thresholds at this time. Staff will review the tiers for Lifeline and Economy rates again during the next rate analysis which will likely occur in Spring 2005.

Water Rates

Water Usage Rates

Water usage rates pay for the costs of water distribution associated with volume, including wholesale costs and system maintenance and operation expenses. The City introduced a new three-tiered water rate structure in October 2003 to replace the then existing two-tiered structure. Under the new rate structure, customers pay for water usage according to the

following schedule: \$1.95 per unit for the first ten units of water (up to about 125 gallons per day); \$2.12 for the next 11 to 30 units (up to about 375 gallons per day); and \$2.45 for units over 30. Customers who do not exceed 10 units of water in a billing period do not pay any second or third tier charges, and they benefit from a reduced sewer service charge as well. Prior to recommending the three-tier structure, staff reviewed water usage data to set the tiers in such a way that customers could reasonably stay within the lowest tier while meeting their basic water needs. Typically, senior citizens and other small family units are able to take advantage of the lower rate. And, even those customers who exceed 10 units are still paying for a significant portion of their water at the lowest rate.

Service Fees

Bi-monthly water billings include a service fee to cover the fixed costs of water delivery that are not associated with volume, such as meter reading and billing services. The standard residential bi-monthly service fee is \$7.00, which is far lower than the service fee charged by other neighboring and Bay Area agencies. The City offers low income water customers a significant reduction in the water service fees, charging \$1.45 for a two-month billing period. Qualifying low-income levels are based on the State of California Department of Housing and Community Development Low Income Levels for Alameda County. Customers may apply for this reduction by providing to the City appropriate supporting documentation to demonstrate that their total family income does not exceed the thresholds developed for the State, based on the number of persons living in a household. For example, a one-person household with an annual income of \$28,050 would qualify for the low-income service fee. Currently, about 900 customers benefit from this reduced service fee.

Rate Adjustments

Hayward's water rates are competitive with those of surrounding communities, due in part to its very low service fees. The service fees have not increased since the early 1990s, although the fixed costs have continued to rise. Water usage rates are likewise reasonable, particularly given the significant increase in wholesale water rates implemented by San Francisco Public Utilities Commission last July. As noted, the City has little opportunity to adjust sewer rates for certain customer classification without significant adverse impacts to others. Also, lower tier sewer rates are tied to water usage, not income level, so adjustment of the Lifeline and Economy rates would not necessarily benefit the residents most in need of rate relief.

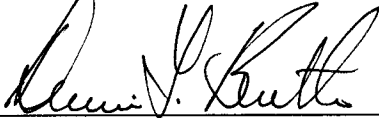
However, the City Council has more flexibility regarding water rates, which are not subject to State Revenue Guidelines such as those which guide the calculation of sewer rates. This is particularly true of service fees which are not used to pay wholesale water costs and other expenses over which the City has little control. If Council so directs, the low income service fee could be further reduced from the current \$1.45 for qualifying residents, which would lower the fixed portion of bi-monthly water billings.

Prepared by:



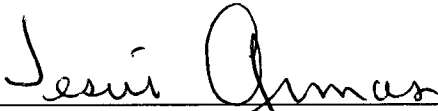
Alex Ameri, Deputy Director of Public Works

Recommended by:



Dennis L. Butler, Director of Public Works

Approved by:



Jesús Armas, City Manager

Attachments: Exhibit A Allocation of Residential Billings
Exhibit B Impact of Threshold Adjustment on Sewer Rates

**DUE TO THE LENGTH OR COLOR
OF THE REFERENCED EXHIBIT,
IT HAS BEEN ATTACHED AS A
SEPARATE LINK.**